

VZCZCXYZ0000  
OO RUEHWEB

DE RUEHBU #0503/01 0742031  
ZNY CCCCC ZZH  
O 152031Z MAR 07  
FM AMEMBASSY BUENOS AIRES  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 7536  
INFO RUEHAC/AMEMBASSY ASUNCION IMMEDIATE 6009  
RUEHRL/AMEMBASSY BERLIN IMMEDIATE 1044  
RUEHBO/AMEMBASSY BOGOTA IMMEDIATE 1525  
RUEHBR/AMEMBASSY BRASILIA IMMEDIATE 5863  
RUEHCV/AMEMBASSY CARACAS IMMEDIATE 1131  
RUEHLP/AMEMBASSY LA PAZ MAR 4502  
RUEHPE/AMEMBASSY LIMA IMMEDIATE 1980  
RUEHLO/AMEMBASSY LONDON IMMEDIATE 1186  
RUEHMD/AMEMBASSY MADRID IMMEDIATE 1789  
RUEHMU/AMEMBASSY MANAGUA IMMEDIATE 0081  
RUEHME/AMEMBASSY MEXICO IMMEDIATE 1328  
RUEHMN/AMEMBASSY MONTEVIDEO IMMEDIATE 6267  
RUEHOT/AMEMBASSY OTTAWA IMMEDIATE 0489  
RUEHZP/AMEMBASSY PANAMA IMMEDIATE 0268  
RUEHFR/AMEMBASSY PARIS IMMEDIATE 1224  
RUEHQT/AMEMBASSY QUITO IMMEDIATE 0878  
RUEHSG/AMEMBASSY SANTIAGO IMMEDIATE 0248  
RUEHKO/AMEMBASSY TOKYO IMMEDIATE 0809  
RUEHSO/AMCONSUL SAO PAULO IMMEDIATE 3202  
RUEAIIA/CIA WASHINGTON DC IMMEDIATE  
RHMFISS/DEPT OF JUSTICE WASHINGTON DC IMMEDIATE  
RUEATRS/DEPT OF TREASURY WASHINGTON DC IMMEDIATE  
RHMFISS/HQ USSOUTHCOM MIAMI FL IMMEDIATE  
RHEHAAA/NATIONAL SECURITY COUNCIL WASHINGTON DC IMMEDIATE  
RUCPDO/USDOC WASHINGTON DC IMMEDIATE

C O N F I D E N T I A L BUENOS AIRES 000503

SIPDIS

SIPDIS

TREASURY FOR NANCY LEE, AJEWEL, WBLOCK, LTRAN  
PASS NSC FOR JOSE CARDENAS, ROD HUNTER  
PASS FED BOARD OF GOVERNORS FOR RANDALL KROSZNER, PATRICE  
ROBITAILLE  
EXIM BANK FOR MICHELE WILKINS  
OPIC FOR JOHN SIMON, GEORGE SCHULTZ, RUTH ANN NICASTRI  
USDOC FOR 4322/ITA/MAC/OLAC/PEACHER

E.O. 12958: DECL: 03/14/2017  
TAGS: [EFIN](#) [ECON](#) [EINV](#) [AR](#)  
SUBJECT: G-8 AMBASSADORS WANT TO HANG TOUGH ON PARIS CLUB  
SOLIDARITY

REF: BUENOS AIRES 140

Classified By: Ambassador E.A. Wayne for Reasons 1.4 (b,d)

#### Summary

-----  
11. (C) The German Embassy hosted a March 13 meeting of Ambassadors representing Argentina's top ten Paris Club creditors. Spain justified its bilateral treatment of its 2001 loan to Argentina, but promised solidarity on other bilateral debt. Participants generally agreed that: 1) an IMF comfort letter was likely insufficient for a restructuring deal, noting concerns over setting a bad precedent; 2) progress was unlikely before the October elections; 3) solidarity was the best leverage to keep the GoA from attempting to pick off individual creditors or criticizing the Paris Club to gain votes in the October election; 4) the lack of political pressure and easy access to financing (including from Venezuela) reduced pressure on the GoA to reach a solution; and 5) the GoA had not sufficiently explained its inability to pay arrears. End Summary.

Germans host G-8 plus for Paris Club discussions  
-----

12. (C) At Post's suggestion, and under the guise of the 2007 G-8 agenda, German Ambassador Rolf Schumacher hosted a March 13 lunch for G-8 Ambassadors, plus Spain and the Netherlands, to discuss Paris Club issues. These countries represent Argentina's top ten Paris Club creditors. (Comment: Russia's lending to Argentina is minimal, but Germany included the Russian Ambassador to maintain the perception -- in case of leaks to the GoA or media -- that this was a G-8 event, and not an attempt to fortify Paris Club solidarity against GoA attempts to conclude one-off deals with individual creditors. End Comment). The Spanish and French sent DCMs, but Ambassadors represented all other missions.

#### Spain on-board with Paris Club solidarity

---

13. (C) The Spanish DCM preempted possible criticism of Spain's bilateral debt restructuring deal with Argentina (see reftel) by assuring Spain's support for showing and maintaining solidarity. He said Spain had arranged for separate treatment of its \$1 billion loan, which it lent to the GoA in 2001 in conjunction with an IMF disbursement. However, he said the GoS would exclusively seek treatment of its other loans (approximately \$680 million) through the Paris Club.

#### Ambassadors skeptical of idea of IMF comfort letter

---

14. (C) The Spanish DCM wondered if an IMF comfort letter would be enough to move forward with a rescheduling deal, although he also questioned whether even this would be possible, given President Kirchner's frequent public rejection of any IMF role in Paris Club negotiations. Other

participants were very skeptical that a comfort letter would be enough to justify a restructuring, especially given IMF-Argentine relations, and argued that the Paris Club needed to avoid setting a bad precedent for other countries seeking treatment in the future.

#### Ambassadors assure no bilat talks ongoing

---

15. (C) All participants assured the group that, contrary to persistent rumors in the local media, they were not negotiating bilaterally with the GOA. The French DCM and German Ambassador specifically stated that there were no separate talks underway and that, according to their understanding, neither of their export credit agencies would be able to act with Argentina until a Paris Club agreement was underway. (Note: Local press reports have stated that the GoA was attempting to complete individual deals with Germany -- the largest creditor with over \$2 billion in loans -- and France. End Note). The participants acknowledged that a significant part of the GOA's motivation for resolving the Paris Club situation was to gain and announce access to export credit agencies for big infrastructure projects (i.e., thermal energy plants and high speed rail), preferably prior to the October elections.

#### Notable lack of progress, and elections looming

---

16. (C) Participants also agreed that no progress was evident, and the GoA was not making serious offers. Several Ambassadors were skeptical that a deal would be reached before October elections in Argentina, and the UK and the Dutch thought that chances were not great even afterwards. Most thought that the President had authorized Economy Minister Miceli to explore a deal in late 2006, but on the condition that the IMF would impose no/no conditionality nor play any overt supervisory role in a rescheduling. Miceli saw the advantages of reaching a deal, particularly in opening access to export credit agencies. She then moved to cut a deal under these conditions, and has also been testing individual countries' openness to bilateral negotiations. "They are going fishing," as the UK Ambassador put it. All participants concluded that the GoA was trying to divide the Paris Club and that the strongest leverage creditors had was to hang tough and stay united.

Why can't Argentina just pay?

-----  
¶17. (C) Participants also agreed that the GOA had not demonstrated sufficiently why it could not just start paying its arrears to Paris Club creditors. The UK Ambassador said GoA officials had told him they preferred to use their resources for investment in Argentina, and he wondered why the GoA could not also pay its debts. There was discussion that the Argentines could come up with their own unilateral plan and just start paying arrears, since they have the money. Several thought this option might be attractive to the GOA as it would avoid the IMF complication. (Comment:

Economic Ministry officials have expressed interest in this option, but insist that it must allow access at least to German and French export credit agencies, and must also come with some kind of agreement that allows the President to announce that he has resolved the Paris Club debts. See septel. End Comment)

Notable lack of pressure on Argentina

-----  
¶18. (C) Participants felt that there was no political pressure on the GOA to solve the Paris Club debt problem. Furthermore, Argentina's solid financial situation and the apparent largess of its new Venezuelan partner reduced the financial pressure, because the GoA was not as pressed to obtain export credit agency financing for infrastructure investment. "A lot of people in the government think that they can live just fine with what they have," as one European Ambassador put it.

¶19. (C) The German Ambassador noted that the fact of not solving the problem does not cost Kirchner domestically; in fact, the Italian Ambassador wondered if Kirchner might actually be setting up the Paris Club (as an institution) for criticism later as an "outside force," in order to garner votes in the election. This would be similar to Kirchner's frequent outbursts against the IMF. The government's strange use of press leaks might support this conclusion. Participants expressed concern with the government's practice in recent months of leaking details about Paris Club talks. The press articles often quote GoA officials saying that negotiations are moving forward, or even near completion, despite the lack of any real movement in Paris (see septel).

Bond holdouts still a sticking point for some

-----  
¶10. (C) The Italian Ambassador commented that the issue of the holdouts from Argentina's 2005 debt exchange was still politically sensitive (with 400,000 bondholders involved), although he said it was relegated for the most part to the courts and the ICSID case. He said Kirchner had bluntly refused during his September 2006 meeting with Italian Prime Minister Prodi to consider any political solution (a big "no"), stating that the issue had to be handled by the lawyers. The German, Japanese and U.S. Ambassadors described legal and other steps still being taken by their citizen bond holders. The general consensus was that this issue would not be addressed easily by GOA, and not quickly.

Comment

-----  
¶11. (C) Post initiated this meeting and worked with German Embassy counterparts to have Ambassador Schumacher serve as host, though the idea originally comes from the Dutch Ambassador who was very concerned about Argentina's divide and conquer strategy. Germany's role as G-8 and EU President in 2007 provided cover in case the existence of the meeting leaked to the press or GoA. Post chose to maintain a low

U.S. profile, to avoid being seen as leading the effort to circle the PC wagons. The purpose of the meeting was to exchange notes on the different missions' interactions with government officials. It is heartening to learn that all the missions seem under instructions to adhere to Paris Club

solidarity. However, the conclusion of the meeting is that the window may have closed for an agreement prior to the October elections. The Japanese Ambassador suggested that the group meet again to compare notes. End Comment.

WAYNE